Role of Trustees in the Capital Markets in Kenya, & Cytonn Weekly #31/2021

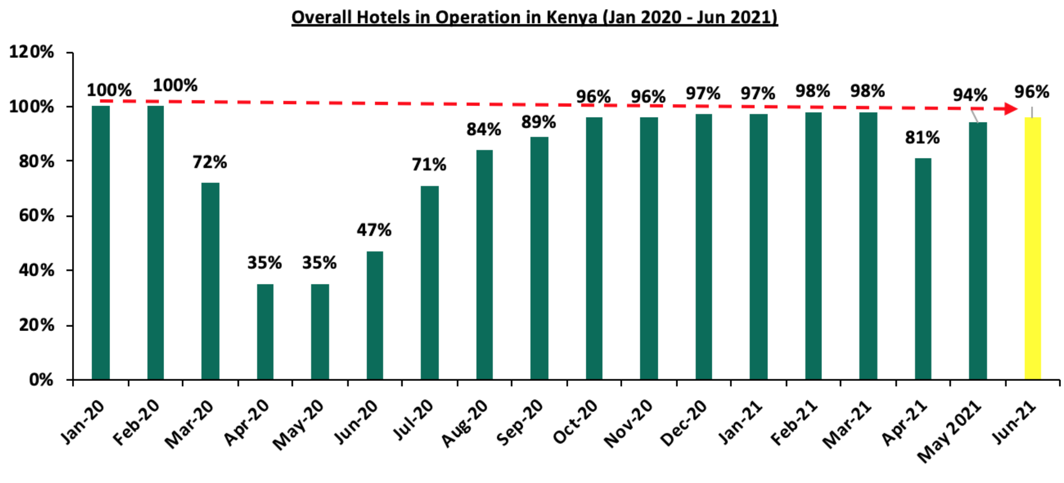
Real Estate

I. **Industry Reports**

During the week, the Central Bank of Kenya (CBK) released the Monetary Policy Committee Hotel Survey-July 2021, a survey intended to assess the extent of the recovery of the hospitality sector. Some of the key take-outs from the report include:

i. On average, the number of operational hotels in June 2021 increased by 2.0% points to 96.0% from the 94.0% recorded in the May 2021, thereby reflecting recovery of the sector following the relaxation of the Covid-19 restriction measures such as re-opening of restaurant and entertainment joints, coupled with Kenya Airways (KQ) returning flights between Nairobi to Kisumu and Mombasa,

The graph below shows the number of operational hotels in Kenya from January 2020 to June 2021;

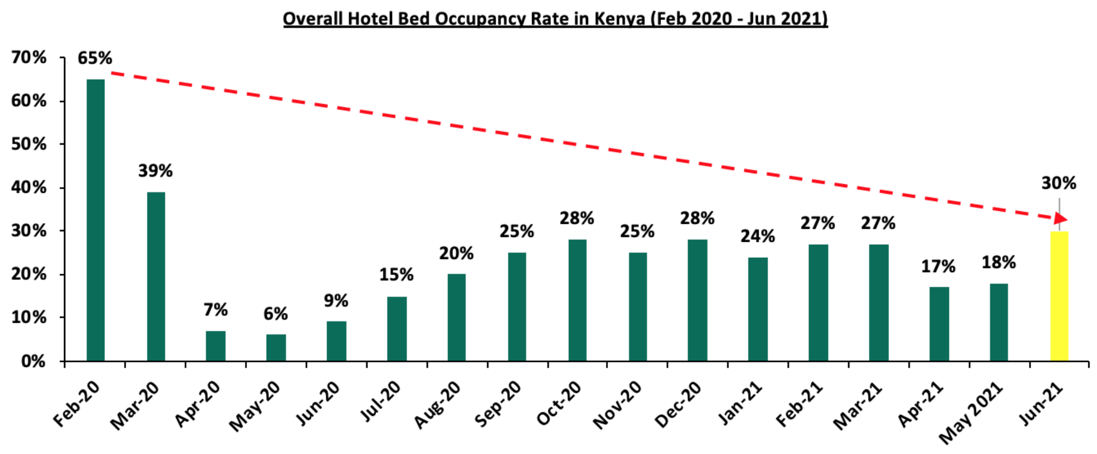


Source: Central Bank of Kenya

ii. Local guests continued to dominate the proportion of clientele for accommodation and restaurant services at 80.0% and 81.0%, representing an 18.0% and 12.0% points increase, compared to 62.0% and 69.0% recorded during the pre-Covid period, respectively. The above is attributed to the focus on local marketing, discounted rates on hotels and conference rooms for local clients and the decline in foreign clientele following travel bans and restrictions in some countries, and,

iii. The overall bed occupancy increased by 12.0% points to 30.0% in June 2021 from 18.0% recorded in May 2021 attributable to; i) events such as World Rally Championships (WRC) that saw hotels in the larger Nakuru region fully booked, ii) discounted rates on hotels and conference rooms and aggressive marketing thus increasing local clients, and, iii) boost in the number of tourists in tourist destinations attributed to warm climate and increased wildlife activities such as the wildebeest migration.

The graph below shows the number of hotel occupancies rates in Kenya from February 2020 to June 2021;



Source: Central Bank of Kenya

The survey indicates a path towards post-Covid recovery with performance of hotels expected to be on an upward trajectory for the rest of the year, as the number of foreign tourists rise supported by the; i) announced increase in direct flights from Frankfurt Germany to the Moi International Airport (MIA), ii) announcement by Jambo Jet to do four flights per week to the coastal town of Lamu at prices lower than market rates, iii) continued upgrade of the Moi International Airport to accommodate more flights, and, iv) increased wildlife activities boosting tourist arrivals.

II. **Residential Sector**

During the week, Centum Real Estate, a real estate developer, partnered with NCBA Bank Kenya to provide mortgage financing for both qualified salaried and self-employed Kenyans to access over 5,000 units under development by the firm. The housing units are spread in areas along Thika Road, Kasarani and Two Rivers Mall which include villas, townhouses and apartments. NCBA has been on the forefront in provision of mortgage financing, fostering partnerships with property developers such as Mi Vida Homes in April 2021 to provide mortgage financing for purchase of over 3,000 homes in the Garden City Project over the next five years. Additionally, it partnered with Tatu City to provide mortgages to home buyers within their mixed use developments with a buy and build option receiving up to 80.0% financing with a maximum repayment period of 25 years depending on employment status.

The following table shows developments under the Centum Real Estate in the Nairobi Metropolitan Area;

Centum Real Estate Projects in the Nairobi Metropolitan Area

Project	Area	No of Units	Typology Price Ranges
26 Mzizi Court	Gigiri, Nairobi	1,650	1 bed - Kshs 4.9 to Kshs 5.8 mn 2 bed - Kshs 7.3 to Kshs 8.4 mn
Cascadia Apartments	Gigiri, Nairobi	400	1 bed - Kshs 8.5 mn 2 bed - Kshs 12.8 mn 3 bed - Kshs 14.4 to Kshs 24.5 mn
Riverbank	Gigiri, Nairobi	168	1 bed - Kshs 14.0 mn 2 bed - Kshs 20.0 mn 3 bed - Kshs 26.5 mn

Centum Real Estate Projects in the Nairobi Metropolitan Area

Project	Area	No of Units	Typology Price Ranges
Loft Residences	Gigiri, Nairobi	56	Upper floors - Kshs 37.5 mn Lower floors - Kshs 44.0 mn
265 Elmer One	Kasarani	268	1 bed – Kshs 4.2 mn 2 bed – Kshs 5.2 mn Studio – Kshs 2.2 mn
365 Pavilion	Thika Road, Near USIU	365	1 bed - Kshs 4.8 mn 2 bed - Kshs 7.1 mn 3 bed - Kshs 10.1mn

Source: Online Research

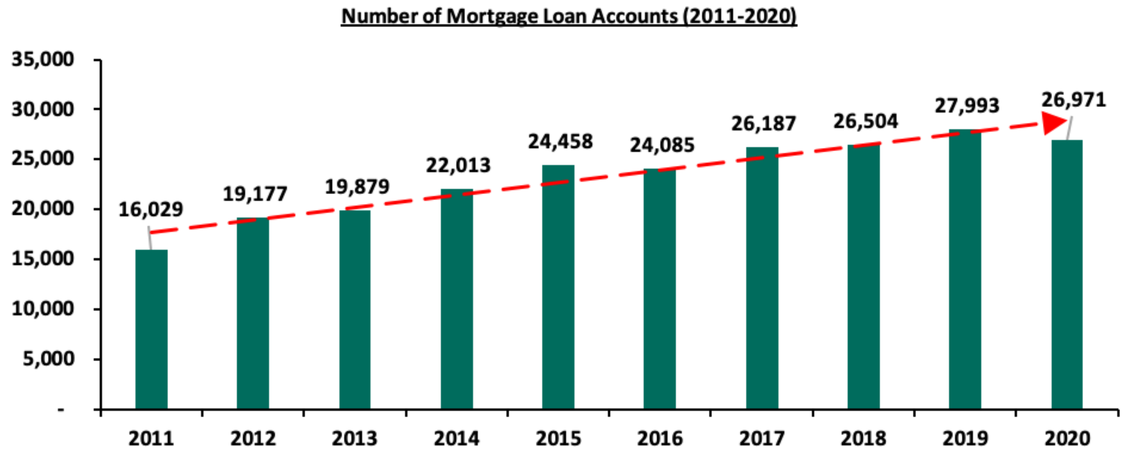
The partnership by Centum and NCBA Bank is expected to increase home ownership with a broader client base inclusive of self-employed Kenyans who have in the past been unable to secure mortgage loans due to credit information being below the required threshold for assessment by mortgage lenders.

Mortgage uptake in the country has remained low due to factors such as i) the high house prices which have led to the exclusion of low income earners, ii) the high interest rates that make it hard to meet the contractual obligations for mortgage financing, iii) the increase in the number of real estate non-performing loans leading to lenders tightening their risk provisions, and, iv) the constrained home ownership structured solutions by lenders leading to failure to incorporate more clients and boost mortgage accounts in the country. However, tremendous efforts are being made towards mortgage provisions especially by the primary mortgage lenders through i) partnering with private developers such as Centum Real Estate, ii) offering flexible loan repayment terms and periods, iii) increased capital liquidity from the minimized capital requirements to back mortgages, and, iv) incorporating self-employed Kenyans who have in the past been excluded in mortgage provisions due to lack of required threshold credit information.

Mortgage accounts in the country declined by 1,022 accounts in the year 2020 to 26,971 from the 27,993 recorded in 2019, attributable to the tough economic environment leading to the low uptake.

To increase mortgage uptake, the Central Bank of Kenya introduced a reduction in capital requirement for mortgage backed loans from 50.0% to 35.0% effective from 1st July 2021. Banks will now have more liquidity for lending towards home ownership in an aim to boost mortgage accounts going forward. The move by Central Bank of Kenya is expected to boost mortgage uptake which has grown at a very low rate over the last 10 years, at a CAGR of 5.3%, adding just 10,942 accounts between 2011 and 2020, compared to an annual housing demand of 200,000 units.

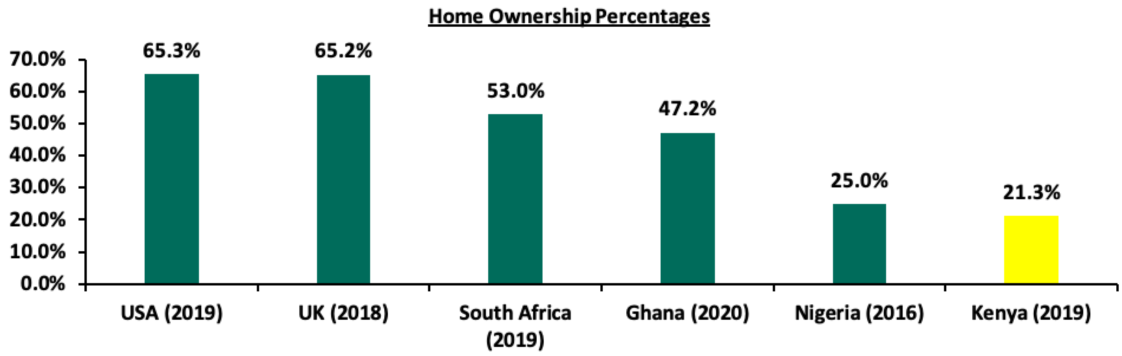
The graph below shows the number of mortgage accounts over the last decade;



Source: Central Bank of Kenya

An increase in the mortgage uptake is expected to boost home ownership rate in the country which has remained relatively low at 21.3% of the urban dwellers as Kenya seeks to reach the levels of some of the African countries such as South Africa and Ghana which were 31.7% points and 25.9% points higher than Kenya, coming in at 53.0% and 47.2%, as recorded in 2019 and 2020, respectively.

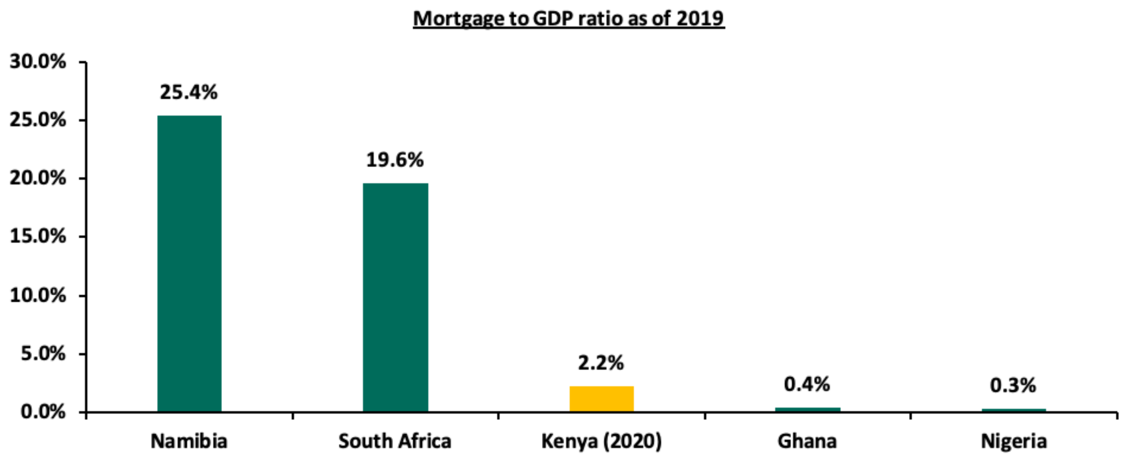
The graph below shows the home ownership percentages in different countries compared to Kenya;



Source: Center for Affordable Housing Africa

Despite efforts to increase home ownership the percentage has remained relatively low, resulting to a low mortgage to GDP ratio at 2.2% as at 2020 compared to South Africa and Namibia recording 17.4% points and 23.2% points higher mortgage to GDP ratios than Kenya, at 19.6% and 25.4%, respectively. The government, in an aim to improve this, set up a Mortgage Liquidity Facility (MLF) that is the Kenya Mortgage Refinance Company (KMRC) which was licensed for operations in September 2020, and aimed at enhancing mortgage affordability. The firm advances credit to primary mortgage lenders at a rate of 5.0% making it possible for them to offer long term mortgages at single digit rate of approximately 7.0%. It is however not clear how KMRC seeks to acquire these funds and at the same time lend at such low rates given that the government itself can only acquire 20 year funds at a 13.2% rate.

The graph below shows mortgage to GDP ratio of different countries compared to Kenya;



Source: Centre for Affordable Housing Africa

The residential sector continues to record increased activities supported by efforts of private sector players like banks to offer mortgage solutions in order to keep boosting their mortgage accounts with focus on the low and middle income earners in the country.

The real estate sector performance is expected to improve for the rest the year supported by increase in number of operational hotels and bed occupancy rates which are expected to

aid the hospitality sector in its recovery following a tough environment from the onset of the Covid-19, and developers' partnerships with financial institutions to offer flexible mortgage solutions in an aim to boost home ownership in the country.
